



2010 SPECIAL SESSION REVIEW

April 20, 2010

Dear Kitchen Cabinet members,

The 2010 special session ended just after 1:00 a.m. on the 30th and final day allowed by law. At the beginning of the 2010 regular session, I made a reference to the *Titanic* in explaining how majority Democrat spending decisions had put us on a collision course. Apparently, the ship's officers learned nothing from last year's mistakes. **The 2009-10 combination of taxes and spending is, to me, like backing the ship up and taking a second run at the iceberg.**



Massive tax increases, zero reforms

The closed-door deals made to win final passage of the largest tax increase in state history and a shortsighted supplemental budget were not in the best interest of Washington taxpayers. 2010 should have been the year to reform government and exercise leadership that put state government on a smarter and more stable course.

The package of 20 separate tax increases is expected to generate another \$794 million in the next 15 months and nearly \$1.7 billion during the 2011-13 biennium, **for a total of almost \$2.5 billion.**

The largest piece is an increase in the business and occupation tax on service providers, which takes effect May 1 and will cost \$242 million between now and next summer alone. Making employers pay 20 percent more in taxes just to do business in Washington will result in more job losses.

As part of my Kitchen Cabinet, I often rely on you to see the forest through the trees with what goes on down in Olympia. **I'd like you to take a hard look at who represents you in the state Legislature, including me, and ask yourself how this budget situation could have been avoided.** To me, it doesn't matter if you're the person who robbed the bank or the person who helped spend the stolen money. In the same way, even if legislators didn't vote to raise taxes, if they voted to increase spending, both people should be held equally responsible.

A setup for failure

The majority party left \$4.7 billion in commitments and adjustments for us to confront next session – without the revenue to do so. **That's not counting the close to \$750 million in "hoped-for" funds that are assumed in this budget – including around \$630 million from the federal government, which is not guaranteed to arrive.**



The \$30.9 billion final general-fund operating budget includes some familiar accounting gimmicks, such as channeling \$461 million from other accounts intended for environmental cleanup, public works projects and other specific activities into the general fund. It also drains the last \$229 million remaining in the rainy-day fund created by voters in 2007.

Senate Republicans came into this session with reform ideas to plug a budget hole caused by overspending and relying too heavily on one-time dollars. The majority party ended the special session with a budget that repeats their spending mistakes and relies on a massive tax increase, meaning next session we'll be facing the same choice all over again: **raise taxes or reduce spending.**

The politically easier choice vs. the right thing to do

The majority party spent an entire month trying to figure out how to come to a budget agreement by polling focus groups about which tax increase proposals would be more “politically acceptable.” **There were no systemic changes of any substantial nature in any area of government.**

In addition to the B&O tax increase on service businesses (80 percent of which are small businesses), a number of tax incentives created to allow businesses to expand and grow jobs were eliminated. Majority Democrats ignored our calls for government reform and chose instead to raise the **taxes on some of the things you may buy every day, because they polled better than other Democrat proposals, like raising the sales tax or instituting a state income tax. Here are just a few of the items you’ll soon be paying more for:**

Bottled water – Will now be subject to sales tax whereas it was previously exempt. Sales tax in Pierce County is 9.3%, so you will be paying that much more for a bottle of water. For example, **a \$10 case of bottled water will now cost about \$10.93.**



Candy and gum – Were also not subject to sales tax before but will now be. At Pierce County’s 9.3% sales tax rate, you’ll be paying that much more for candy and gum. **A \$1.00 candy bar will now cost about \$1.09.**



Soda pop – The tax on soda will be increased by 2-cents per 12 oz. can/bottle (at the distributor level, and this assumes those costs will filter down to the retail level). So assuming a 12-pack of soda costs \$4.00, and the sales tax rate is 9.3%, you would previously pay \$4.37 for that 12-pack. **With the new tax increase, that same \$4.00 12-pack will now cost \$4.61**



Beer – Like the soda, tax on beer will increase (again, at the distributor level) from \$8.08 per barrel to \$23.58 per barrel. **That’s a 192% increase in tax at the wholesale level!** If you assume a six-pack of mass-market beer (microbrews are exempt, so we’re talking about Bud, Coors, Miller, etc.) costs roughly \$6.00, the previous price after sales tax would be \$6.56. With the new tax increase, the cost of that six-pack goes up to \$6.84.



Cigarettes and other tobacco products – Since price differences in packs of cigarettes vary from brand to brand, the best way to convey this increase is the per-pack tax. Currently the state takes about \$2.02 per pack in taxes. That will increase by \$1.00 to \$3.02 per pack. **That works out to be about a 49.4% increase in the tax.**



The tax package passed under the cover of darkness on day 29 of the special session put a “temporary” tax on bottle water. [House Bill 2576](#), a referendum to the voters, would make that tax permanent to finance \$505 million in bond sales – over and above the state’s debt limit – to pay for energy efficient improvements to public facilities. **The cost to taxpayers will end up being about \$1 billion with interest on the bonds.** Senate Republican amendments to ensure the voters’ pamphlet statement was clear as to the costs and risks of exceeding the state’s debt limit and making permanent a “temporary” new tax were defeated by the majority party.

Missed opportunities

In a session (and special session) which gave us unprecedented challenges to face, the Legislature didn’t even have the wherewithal to make the obvious choices by plucking the “lowest-hanging fruit” first. Some of the areas in which the state could have easily made reductions went completely untouched.

For example, the state could have **removed the requirement that one-half of one percent of the total cost of public buildings be spent on beautification with commissioned art projects** like sculptures and paintings. Even if it were a temporary suspension, the state would have saved millions of dollars. Instead, the majority chose to allow those commissions to go to out-of-state artists, meaning your tax dollars may not even remain in our local economy.

Another idea would have been to require the Washington Education Association to return its unspent tax money to the state. If you look at the [tax returns for the Washington Education Association from 2004-2007](#), you’ll see an increasing dollar amount left over in its Rate Stabilization Reserve Trust account (it’s the number in the lower-right corner of each page). **As of 2007, there was over \$106 million of your tax dollars in that account.** One of my colleagues offered an amendment which would have required that money not spent at the end of each year be used to

defray the cost to local school districts of health and other employee benefits. The amendment was not adopted.

Still other ideas included **closing the state print shop**, another multi-million dollar savings idea supported by both sides of the aisle, **privatizing liquor stores** in Washington and limiting the amount of time individuals could take advantage of the **Temporary Assistance for Needy Families (TANF)** cash assistance program. In fact, [Senate Republicans have offered up over 55 solutions since 2005](#) which could have prevented the state from hitting this iceberg in the first place, but little or no consideration was given to any of them.

In closing...

If you know someone in our district who might be interested in receiving these updates, please feel free to forward this e-mail to him or her.

You can always find information online by visiting my website at www.SenateRepublicans.wa.gov/Carrell.

Please note that these Kitchen Cabinet updates will come less frequently now that session has ended. As always, if you'd like to contact me you can write, phone, e-mail, or stop by. My office phone number is (360) 786-7654, and my home phone number is (253) 581-2859. Or you can write me at **102 Irv Newhouse Building, P.O. Box 40428, Olympia, WA 98504-0428.**



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Sincerely,

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